



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D. C.

TM-512
(P.O.P.)

DPD-4091-60

#644

REPLY TO:
Auditor General
Comptroller, USAF
Eastern District
Liaison Office
P.O. Box 8155, S.W. Station
Washington, D. C.

18 May 1960

SUBJECT: Report on Review of Proposed Fixed Hourly Rates
and Pricing Formula
Granger Associates, Palo Alto, California
Contract Nos. TM 512 and CT-511
Period: 1 February through 30 June 1960

TO : Contracting Officer

REF : DPD-2267-60

1. In accordance with referenced request a review of the contractors proposed fixed hourly rates under Contract No. TM-512 and the proposed pricing formula under Contract CT-511, has been made.

2. Results of Review

(a) Contract TM-512

The fixed hourly rates proposed by the contractor included burden at 85% and G & A Expense at 16%. The basic hourly labor rates and the aforementioned overhead rates used by the contractor were found to be acceptable. However, due to a misunderstanding, the contractor in computing the total rates, applied a profit factor of 15% rather than the 10% rate that had previously been agreed upon with the Contracting Officer. The auditor recomputed the rates using the 10% profit factor and the results were as follows:

	Fixed Hourly Rates	
	Per Contractor Using 15% Profit Factor	Per Auditor Using 10% Profit Factor
Supervisory Engineer I	\$22.83	\$21.84
Supervisory Engineer II	18.52	17.71
Project Engineer	15.53	14.85
Senior Engineer	12.14	11.62
Engineer	9.99	9.56
Junior Engineer	7.67	7.34
Production Engineer	13.58	12.99
Electronic Technician I	8.57	8.20
Electronic Technician II	6.42	6.14
Mechanical Technician I	8.57	8.20
Mechanical Technician II	6.07	5.81
Welder-Machinist	8.40	8.03
Draftsman	7.16	6.85
Designer	9.50	9.09
Senior Engineer	11.43	10.93
Assembler	5.51	5.27
Secretary	5.43	5.19

STAT The contractor's representative [redacted] stated that this matter would be discussed with the Contracting Officer and resolved. With respect to material and other direct charges under the contract, the contractor's proposal specifies that only G&A expense and no profit will be applied to such items.

(b) Contract CT-511

Basic hourly rates proposed for use under this contract were found by the auditor to represent acceptable average hourly rates actually being paid to employees in the categories concerned. They are as follows:

Supervisory Engineer I	\$9.25
Supervisory Engineer II	7.50
Project Engineer	6.29
Senior Engineer	4.92
Engineer	4.05
Junior Engineer	3.11
Production Engineer	5.50
Electronic Technician I	3.47
Electronic Technician II	2.60
Mechanical Technician I	3.47
Mechanical Technician II	2.46
Welder - Machinist	3.40
Draftsman	2.90
Designer	3.85
Senior Engineer	4.63
Assembler	2.23
Secretary	2.20

Under the pricing formula proposed by the contractor, estimated labor hours in the above categories will be extended at the above rates, to which will be applied 85% for burden, plus materials at estimated cost. To the total thus derived, G & A expense will be applied at the rate of 16%. A profit factor of 9% will be applied to the overall total to arrive at selling price. Inasmuch as the labor and overhead rates included in the formula have been reviewed by the auditor and found reasonable, and the contracting officer has indicated his approval of the 9% profit factor, this pricing formula is considered acceptable. Some of the wording in the second paragraph of the contractor's proposal with respect to billing under the contract were not entirely clear. The auditor discussed this matter with [redacted] and it was agreed that the contract is fixed price type and that prices are to be fixed in advance based upon the pricing formula.

[redacted]
Audit Liaison Officer
Eastern District
Auditor General